

Image Systems

Sector: Industrial Goods & Services

Solid performance

Redeye is happy to see the very solid performance of the third quarter. Both business segments posted stronger earnings than we expected. On Group level Q3 was a new ATH with EBITDA margins of almost 30%. Image Systems appears to be in better shape than ever. We are growing increasingly confident on the case and raise our forecasts and valuation somewhat. Our Base case fair value around SEK 2.6 per share, suggests further potential in the share.

Q3 record quarter

Net sales of SEK43m was only slightly higher than expected. However, earnings and margins were significantly higher. EBITDA of SEK13m is a new record level, displaying Image Systems' operating leverage when both business segments are performing well. Gross margins of 71% is a little lower Y/Y but still higher than we anticipated. Opex were lower than we expected, following a reduction in head count in the third quarter.

RemaSawco's sales grew by 20% yielding an impressive boost in EBITDA margins of 23%. Obviously very promising as previous internal measures appear to have given good results. Moreover, Q3 order intake: SEK57m, more than doubled Y/Y.

Motion Analysis also posted a very strong quarter: 35% growth Y/Y and 57% EBITDA margins! Several projects were finalized and delivered during the quarter and margins were supported by a higher portion of software sales.

Near-term estimates up

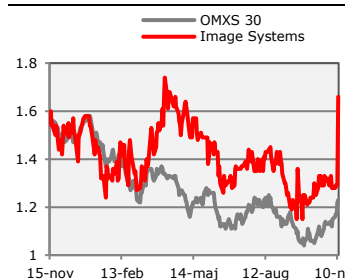
Following the upbeat Q3 report we are raising our forecasts. Particularly for RemaSawco which is showing promising progress. We are still a bit cautious as both business segments have shown volatility and are difficult to predict. Our valuation range is now higher: SEK 1.1-3.8 per share, with a Base case fair value around SEK 2.6 per share.

Key Financials (SEKm)	2020	2021	2022E	2023E	2024E
Net sales	163	152	166	186	206
Revenue growth	-21%	-6%	9%	13%	10%
EBITDA	5	19	27	31	34
EBIT	-13	1	7	11	21
EBIT Margin (%)	-8%	0%	5%	6%	10%
EV/Revenue	0.8	0.9	0.8	0.6	0.5
EV/EBITDA	29.0	7.3	5.1	3.7	2.8
EV/EBIT	neg	201.1	18.5	10.0	4.5

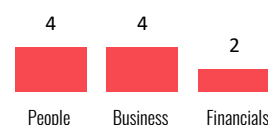
FAIR VALUE RANGE

BEAR	BASE	BULL
1.1	2.6	3.8

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ISY.ST
Market	Nasdaq
Share Price (SEK)	1.8
Market Cap (MSEK)	160
Net cash 22E (MSEK)	9
Free Float	44%
Avg. daily volume ('000)	60

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Blockbusting quarter

Image Systems' Q3 numbers beat our forecasts by a wide margin. Group EBITDA of SEK12.7m and margins of almost 30% is a new ATH. Net sales were a little higher than expected, but costs were significantly lower. Hence earnings and margins really encouraging. As shown in the table below, both business segments reported very strong earnings.

RemaSawco showed further improvement Y/Y, despite strong earnings in Q3 2021.

Apparently, the last year's restructuring and reorganization has paid off.

Motion Analysis also saw significant improvement Y/Y. Impressive EBITDA margins of 57% partly due to a large portion of software sales and positive currency effects.

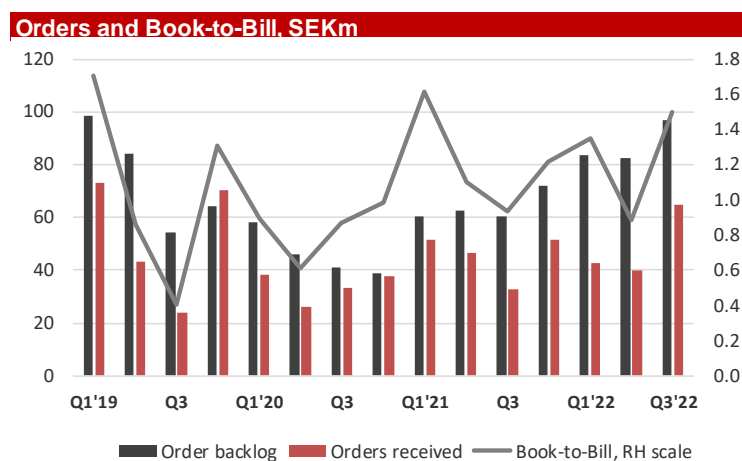
Cash flow was negatively impacted by working capital changes of minus SEK8.5m. Cash flow after investments in Q3 was only SEK0.5m. However, with SEK11m in cash and limited capex needs, we believe the company has no problem financing its expansion.

Image Systems: Actual vs. expected				
(SEKm)	Q3'21	Q3' 22 Actual	Q3'22E	Diff
RemaSawco				
Revenues	28.7	34.9	34.2	2%
EBITDA	5.7	8.1	2.7	200%
EBITDA margin	20%	23%	8%	
Motion Analysis				
Revenues	7.4	10.0	7.4	35%
EBITDA	2.9	5.7	2.4	138%
EBITDA margin	39%	57%	32%	
Group & parent company	-0.8	-1.1	-1.0	
Group EBITDA	7.8	12.7	4.1	210%

Source: Image Systems, Redeye Research

Order bookings picking up

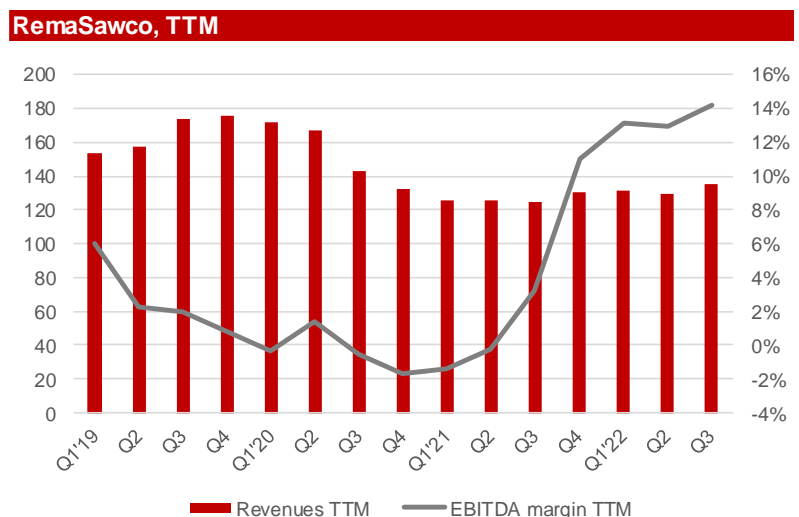
Order bookings of SEK65m in Q3 is much higher than we have seen recently. Over SEK27m relates to the framework contract with Moelven Timber. The quarter also includes a SEK8.5m write-off of an earlier order with an end customer in Russia. The order backlog is now almost SEK100m, the highest amount in three years.



Source: Image Systems, Redeye Research

RemaSawco showing solid progress

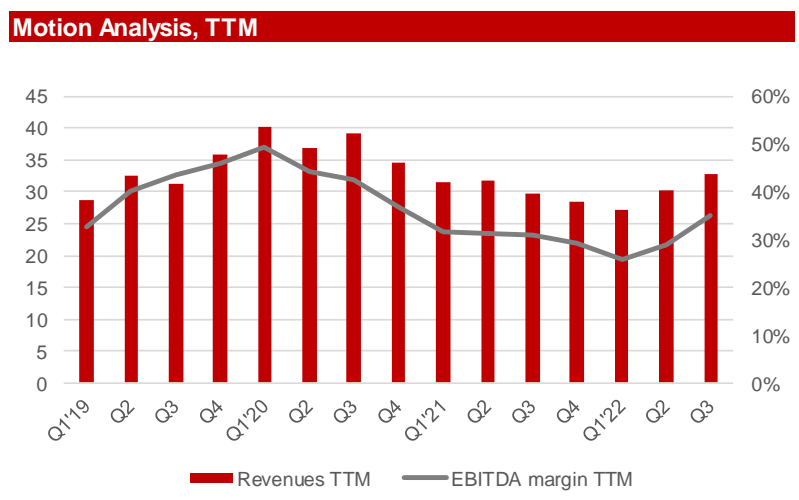
The charts below show revenues and margins, four quarters trailing. Both segments are somewhat volatile on a quarterly basis, hence TTM gives a better picture of the underlying trend. RemaSawco is certainly displaying a significant improvement in the last year. Despite lower revenues, EBITDA margins are now well above 10%. Following some major initiatives for restructuring and reorganization, we are confident that RemaSawco is now in better shape than ever.



Source: Image Systems, Redeye Research.

Motion Analysis – back on the growth track

Motion Analysis' is showing a different pattern (compared to RemaSawco) with margins basically tracking revenues. Following the pandemic, revenues declined as many countries were shut down, limiting the possibility to meet customers. Margins peaked in Q1'20, along with sales and declined down to the Q1'22 trough. The trend is now looking much better and operating leverage is quite significant as a large portion of sales is related to software.



Source: Image Systems, Redeye Research.

Financial Forecasts

Following the strong Q3 report we are raising our earnings forecasts. Certainly for 2022e, but also somewhat for the coming years. This is mainly related to costs being well contained and not so much to higher growth. We still expect around 10% annual sales growth. Maybe we are still underestimating the operating leverage as we forecast EBITDA margins to remain around 16% for the next few years. EBIT margins should improve when amortization from the Limab acquisition tapers off.

Image Systems: Estimate changes			
MSEK	2022e	2023e	2024e
Total revenues			
Old	171	189	208
New	174	192	212
% change	2%	2%	2%
EBITDA			
Old	17	25	32
margin	10%	13%	15%
New	27	31	34
margin	16%	16%	16%
EBIT			
Old	-3	5	15
margin	-2%	3%	7%
New	7	11	21
margin	4%	6%	10%

Source: Redeye Research

RemaSawco has taken some major steps in improving efficiency and focusing its offering. The sawmill industry is quite volatile with big swings in prices and production volumes. Profitability is still healthy and currently capacity utilization a bit lower than in the last couple of years. Conditions for investments in the sawmills therefore seem quite favorable.

Motion Analysis is gradually recovering from the global pandemic with travel restrictions inhibiting their sales process. Also, the new technology platform will enable new possibilities for product development that will drive sales in the coming years.

Image Systems estimates					
(SEKm)	2020	2021	2022e	2023e	2024e
Total revenues	167	159	174	192	212
RemaSawco	133	130	140	154	169
Motion Analysis	35	28	35	39	43
Group growth	-21%	-5%	10%	10%	10%
COGS	-65	-49	-54	-64	-73
Gross profit	103	110	112	122	132
margin	60%	68%	68%	65%	64%
OPEX	-98	-90	-85	-91	-98
EBITDA	5	19	27	31	34
margin	3%	12%	16%	16%	16%
Whereof					
RemaSawco	-2	14	17	21	24
margin	-2%	11%	13%	14%	14%
Motion Analysis	13	8	14	14	15
margin	37%	29%	40%	35%	35%
Amortization & Depreciation	-18	-19	-20	-19	-13
EBIT	-13	1	7	11	21
margin	-8%	1%	4%	6%	10%

Source: Image Systems, Redeye Research

Valuation

Fair value per share:
~SEK 2.6

Our valuation is based on the forecasts above and the assumptions outlined below. Our Base case fair value is unchanged at around **SEK 2.6 per share**.

Our long-term projections and assumptions:

- CAGR 2025-31: 7%.
- Average EBIT margins ~12%.
- WACC: 12%

Image Systems, assumptions and valuation

Assumptions	2025-31	DCF-value	
CAGR sales	7%	WACC	12%
EBIT margin (avg.)	12%	PV of FCF	131
		PV of Terminal value	95
Terminal		EV	226
Net sales 2032E, SEKm	340	Net cash	6
Growth FCF	2%		
EBIT margin	12%	DCF value	232
		Fair value per share	2.6
EV/S Exit multiple	0.8	Current share price	1.8
EV/EBIT Exit multiple	6.7	Potential	45%

Source: Redeye Research

Multiples clearly attractive

2021 was a year of turn-around on EBIT level, although EBITDA has been in positive territory all along. We argue that the most relevant earnings multiple is somewhere between EV/EBIT and EV/EBITDA. A large part of amortizations are related to intangible assets from the Limab acquisition and should be excluded. Total depreciations and amortizations are currently higher than the going run-rate for investments. In this context, and based on our forecasts, we think the share is trading at attractive multiples.

Valuation multiples

	2020	2021	2022e	2023e	2024e
P/S	0.8	0.9	0.9	0.8	0.8
P/E	neg	>100	23.2	14.0	9.5
EV/EBIT	neg	>100	20.6	13.5	7.3
EV/EBITDA	29.0	7.2	5.7	5.0	4.6

Source: Redeye Research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report: No changes

People: 4

Overall, Image Systems has an experienced team with in-depth market knowledge. The CEO (Johan Friberg) is an internal recruitment and had the position as Managing Director of Motion Analysis since 2012. The management's focus on profitable growth is clear, showing that they aim to create value for the company's customers. The company has a solid list of shareholders and the three largest own around 50%. To improve our ownership scoring, we would like to see higher shareholdings by management. On the positive side, we believe that the three largest shareholders have the financial strength to back up a potential future share issue.

Business: 4

Image Systems has a high gross margin in both business areas, particularly in Motions Analysis' software business. While RemaSawco has a solid market position in Scandinavia and Northern Europe, Motion Analysis is a dominant global player in its specific market niche. Image Systems has a huge distribution network in Motion Analysis, making it possible to develop or add products to the portfolio and distribute them very efficiently. Both target markets for Image Systems are expected to grow by more than 5 % annually in coming years.

Financials: 2

The low financial score for Image Systems is related to the company's history. Operating cash flow and earnings have been negative historically, although clearly improving lately (21-22). The company is currently (summer 2022) net debt free. Hence, financial flexibility has improved. The business should be cash flow positive given normal market conditions, but still need higher volumes to reach decent profitability. The company has a large number of clients but obviously the majority are in the sawmill industry which is quite cyclical. If the company delivers according to our expectations, its Financial rating will gradually improve.

	2021	2022E	2023E	2024E
INCOME STATEMENT				
Net sales	152	166	186	206
Cost of Revenues	49	54	64	73
Gross Profit	103	112	122	132
Operating Expenses	84	85	91	98
EBITDA	19	27	31	34
Depreciation & Amortization	19	20	19	13
EBIT	1	7	11	21
Net Financial Items	-1	-1	0	0
EBT	-1	6	11	21
Income Tax Expenses	-1	0	0	4
Non-Controlling Interest	0	0	0	0
Net Income	0	7	11	17
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	7	16	40	61
Inventories	12	17	19	21
Accounts Receivable	22	28	24	27
Other Current Assets	16	12	19	21
Total Current Assets	57	73	102	129
Non-current assets				
Property, Plant & Equipment, Net	23	19	19	19
Goodwill	36	36	36	36
Intangible Assets	61	55	45	41
Right-of-Use Assets	0	0	0	0
Shares in Associates	0	0	0	0
Other Long-Term Assets	19	19	19	19
Total Non-Current Assets	140	130	120	116
Total Assets	196	202	222	245
Liabilities				
Current liabilities				
Short-Term Debt	5	5	5	5
Short-Term Lease Liabilities	5	5	5	5
Accounts Payable	16	13	19	23
Other Current Liabilities	35	36	39	41
Total Current Liabilities	61	59	68	74
Non-current liabilities				
Long-Term Debt	2	2	2	2
Long-Term Lease Liabilities	13	13	13	13
Other Long-Term Liabilities	7	7	7	7
Total Non-current Liabilities	22	22	22	22
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	114	121	132	149
Total Liabilities & Equity	196	202	222	245
CASH FLOW				
NOPAT	0	8	11	17
Change in Working Capital	6	-5	-2	-4
Operating Cash Flow	23	19	34	29
Capital Expenditures	0	0	-4	-4
Investment in Intangible Assets	-8	-9	-6	-4
Investing Cash Flow	-8	-9	-10	-8
Financing Cash Flow	0	0	0	0
Free Cash Flow	15	9	24	21

	2021	2022E	2023E	2024E
DCF Valuation Metrics				
Initial Period (2022–2025)				43.1
Momentum Period (2026–2029)				61
Stable Period (2030–)				122
Firm Value				226
Net Debt (last quarter)				-6.0
Equity Value				232
Fair Value per Share				2.6
CAPITAL STRUCTURE				
Equity Ratio	0.6	0.6	0.6	0.6
Debt to equity	0.1	0.1	0.1	0.0
Net Debt	0	-9	-33	-54
Capital Employed	136	143	154	171
Working Capital Turnover	15.9	11.3	10.9	9.5
GROWTH				
Revenue Growth	-6%	9%	13%	10%
Basic EPS Growth	-100%	689870%	66%	47%
Adjusted Basic EPS Growth	-100%	689870%	66%	47%
PROFITABILITY				
ROE	0%	6%	9%	12%
ROCE	1%	5%	7%	12%
ROIC	0%	6%	9%	14%
EBITDA Margin (%)	13%	16%	16%	16%
EBIT Margin (%)	0%	5%	6%	10%
Net Income Margin (%)	0%	4%	6%	8%
VALUATION				
Basic EPS	0.0	0.1	0.1	0.2
Adjusted Basic EPS	0.0	0.1	0.1	0.2
P/E	140951.8	21.5	12.9	8.8
EV/Revenue	0.9	0.8	0.6	0.5
EV/EBITDA	7.3	5.1	3.7	2.8
EV/EBIT	201.1	18.5	10.0	4.5
P/B	1.2	1.2	1.1	1.0
SHAREHOLDER STRUCTURE				
	CAPITAL %	VOTES %		
Tibia konsult AB	32.0%	32.0%		
Thomas Wernhoff	15.7%	15.7%		
Hans Malm	8.5%	8.5%		
LMK Forward	6.2%	6.2%		
Avanza Pension	5.3%	5.3%		
SHARE INFORMATION				
Reuters code				ISY.ST
List				Nasdaq
Share price				1.80
Total shares, million				89.2
MANAGEMENT & BOARD				
CEO				Johan Friberg
CFO				Johan Friberg
Chairman				Anders Fransson
ANALYSTS				
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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Henrik Alveskog owns shares in the company : No

Tomas Otterbeck owns shares in the company : No

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